

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Jackson Downtown Development Authority	County Jackson
Fiscal Year End June 30, 2006	Opinion Date October 18, 2006	Date Audit Report Submitted to State December 28, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

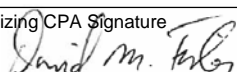
YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 517-787-6503		
Street Address 675 Robinson Rd		City Jackson	State Mi	Zip 49203
Authorizing CPA Signature 		Printed Name David M. Fisher, CPA		License Number 10337

**JACKSON DOWNTOWN  
DEVELOPMENT AUTHORITY**

**Basic Financial Statements**

**For The Year Ended June 30, 2006**



**REHMANN ROBSON**

*Certified Public Accountants*

# JACKSON DOWNTOWN DEVELOPMENT AUTHORITY

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**REHMANN ROBSON**

*Certified Public Accountants*

A member of THE REHMANN GROUP



## **INDEPENDENT AUDITORS' REPORT**

October 18, 2006

To the Board of Directors of the  
Jackson Downtown Development Authority  
City of Jackson, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the ***Jackson Downtown Development Authority (the "Authority"), a component unit of the City of Jackson***, as of and for the year ended June 30, 2006, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the management of the Jackson Downtown Development Authority. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Jackson Downtown Development Authority as of June 30, 2006, and the respective changes in its financial position thereof and the budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Authority has not presented Management's Discussion and Analysis (MD&A) as required supplementary information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be, part of the financial statements.

# **BASIC FINANCIAL STATEMENTS**

# JACKSON DOWNTOWN DEVELOPMENT AUTHORITY

## STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET

JUNE 30, 2006

<u>ASSETS</u>	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 192,656	\$ -	\$ 192,656
Accounts receivable	7,166	-	7,166
<b>Total assets</b>	<b>\$ 199,822</b>	<b>\$ -</b>	<b>\$ 199,822</b>
 <b><u>LIABILITIES AND FUND BALANCE</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ -	\$ -	-
<b>Fund balance</b>			
Unreserved - designated for budgeted expenditures in excess of revenues	8,098	(8,098)	-
Unreserved - designated for future operations	5,085	(5,085)	-
Unreserved - undesignated	186,639	(186,639)	-
Total fund balance	199,822	(191,724)	-
<b>Total liabilities and fund balance</b>	<b>\$ 199,822</b>		
 <b>Net assets - Unrestricted</b>		<b>\$ 199,822</b>	<b>\$ 199,822</b>

The accompanying notes are an integral part of these financial statements.

# JACKSON DOWNTOWN DEVELOPMENT AUTHORITY

## STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED JUNE 30, 2006

	General Fund Actual	Adjustments	Statement of Activities
<b>Revenues</b>			
Property taxes	\$ 92,311	\$ -	\$ 92,311
State shared revenue - inventory tax reimbursement	6,347	-	6,347
Interest	5,862	-	5,862
Events contributions	29,906	-	29,906
Miscellaneous	5,053	-	5,053
Contribution from City of Jackson	-	37,800	37,800
<b>Total revenues</b>	<b>139,479</b>	<b>37,800</b>	<b>177,279</b>
<b>Expenditures/expenses</b>			
Advertising and promotions	9,127	-	9,127
Contractual services	87,981	-	87,981
Office supplies	2,513	-	2,513
Office equipment repair/replacement	3,984	-	3,984
Bank fees	3	-	3
Accounting and auditing	3,837	-	3,837
Telephone	1,725	-	1,725
Memberships, dues and fees	1,493	-	1,493
Publications and subscriptions	510	-	510
Conferences and travel	606	-	606
Special projects	10,396	-	10,396
Programs	31,681	-	31,681
Miscellaneous	636	-	636
<b>Total expenditures/expenses</b>	<b>154,492</b>	<b>-</b>	<b>154,492</b>
<b>Excess of revenues over (under) expenditures</b>	<b>(15,013)</b>	<b>37,800</b>	<b>22,787</b>
<b>Other financing sources:</b>			
<b>Transfer In -</b>			
General Fund - City of Jackson	37,800	(37,800)	-
<b>Net change in fund balances</b>	22,787	(22,787)	
<b>Change in net assets</b>	-	22,787	22,787
<b>Fund balance/net assets</b>			
Beginning of year	177,035	-	177,035
<b>End of year</b>	<b>\$ 199,822</b>	<b>\$ -</b>	<b>\$ 199,822</b>

The accompanying notes are an integral part of these financial statements.

# JACKSON DOWNTOWN DEVELOPMENT AUTHORITY

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

### BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2006

(With Comparative Actual Amounts for the Year Ended June 30, 2005)

	June 30, 2006				June 30, 2005 Actual
	Original Budget	Amended Budget	Actual	Over (Under) Budget	
<b>Revenues</b>					
Property taxes	\$ 92,825	\$ 92,825	\$ 92,311	\$ (514)	\$ 93,270
State shared revenue - inventory tax reimbursement	6,347	6,347	6,347	-	6,347
Interest	2,500	4,000	5,862	1,862	2,281
Events contributions	31,300	27,700	29,906	2,206	36,591
Miscellaneous	-	5,000	5,053	53	10,000
<b>Total revenues</b>	<b>132,972</b>	<b>135,872</b>	<b>139,479</b>	<b>3,607</b>	<b>148,489</b>
<b>Expenditures</b>					
Advertising and promotions	10,500	10,500	9,127	(1,373)	6,965
Contractual services	96,735	94,030	87,981	(6,049)	85,877
Office supplies	2,500	2,500	2,513	13	2,327
Office equipment repair/replacement	4,000	4,000	3,984	(16)	2,085
Bank fees	250	50	3	(47)	21
Accounting and auditing	4,000	4,000	3,837	(163)	3,945
Telephone	4,000	4,000	1,725	(2,275)	2,438
Memberships, dues and fees	1,500	1,500	1,493	(7)	1,340
Publications and subscriptions	800	800	510	(290)	616
Conferences and travel	4,000	4,000	606	(3,394)	3,129
Special projects	12,500	18,800	10,396	(8,404)	22,213
Programs	31,800	35,676	31,681	(3,995)	30,148
Miscellaneous	1,500	1,500	636	(864)	127
<b>Total expenditures</b>	<b>174,085</b>	<b>181,356</b>	<b>154,492</b>	<b>(26,864)</b>	<b>161,231</b>
<b>Excess of revenues over (under) expenditures</b>	<b>(41,113)</b>	<b>(45,484)</b>	<b>(15,013)</b>	<b>30,471</b>	<b>(12,742)</b>
<b>Other financing sources:</b>					
Transfer In - General Fund	37,800	37,800	37,800	-	37,800
<b>Net change in fund balances</b>	<b>(3,313)</b>	<b>(7,684)</b>	<b>22,787</b>	<b>30,471</b>	<b>25,058</b>
<b>Fund balance</b>					
Beginning of year	177,035	177,035	177,035	-	151,977
<b>End of year</b>	<b>\$ 173,722</b>	<b>\$ 169,351</b>	<b>\$ 199,822</b>	<b>\$ 30,471</b>	<b>\$ 177,035</b>

The accompanying notes are an integral part of these financial statements.



# JACKSON DOWNTOWN DEVELOPMENT AUTHORITY

## Notes To Basic Financial Statements

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### ***Reporting Entity***

The Jackson Downtown Development Authority (“Authority”) is a Component Unit of the City of Jackson, Michigan (“City”), and is presented as a discrete component unit in the City’s financial statements.

Authorized under Act No. 197 Public Acts of 1975, the Authority’s purpose is to revitalize the Downtown business district. The Authority operates under the supervision of a Board of Directors (appointed by the City Commission of the City of Jackson).

The Authority is a component unit of the City of Jackson, Michigan (the “City”) because the City appoints the Authority’s Board of Directors, it has the ability to significantly influence the Authority’s operations and it is financially accountable for the Authority. Accordingly, the Authority is presented as a discrete component unit in the City’s financial statements and is an integral part of that reporting entity.

***Government-wide and Fund Financial Statements*** – As permitted by GASB Statement No. 34, the Authority uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. Accordingly, this is presented in the Statement of Net Assets and Governmental Fund Balance Sheet and the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances. The major individual governmental fund is reported as a separate column in the aforementioned financial statements.

***Measurement Focus, Basis of Accounting and Financial Statement Presentation*** – The component-wide financial information is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

# JACKSON DOWNTOWN DEVELOPMENT AUTHORITY

## Notes To Basic Financial Statements

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Governmental fund financial information is reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes, intergovernmental revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Authority reports the *general fund* as the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those, if any, required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements.

***Fund Equity*** – In the fund financial statements, the governmental fund reports designations of fund balance for amounts that represent tentative management plans that are subject to change.

***Budgetary Information*** – The general fund is under formal budgetary control and its budget is prepared on the same modified accrual basis used to reflect actual results. In the body of the financial statements, the Authority's actual expenditures and budgeted expenditures are shown on a natural classification basis, and the budgets are adopted and amended at the fund level.

# JACKSON DOWNTOWN DEVELOPMENT AUTHORITY

## Notes To Basic Financial Statements

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### 2. CASH AND EQUITY IN POOLED CASH AND INVESTMENTS

Deposits are classified as follows:

Petty cash	\$ 100
Deposits	<u>192,556</u>
	<u><b>\$192,656</b></u>

All accounts are in the name of the Downtown Development Authority. They are recorded in Authority records at cost. Interest is recorded when deposits mature or is credited to the applicable account.

#### **Statutory Authority**

The Authority is authorized by Michigan law to invest surplus funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

# JACKSON DOWNTOWN DEVELOPMENT AUTHORITY

## Notes To Basic Financial Statements

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Cash and cash equivalents are in accordance with statutory authority.

Custodial Credit Risk - Deposits. For deposits, custodial credit risk is the risk, that in the event of a bank failure, the City's deposits may not be returned to the government. As of June 30, 2006, \$13,097 of the DDA's total bank balance of \$213,097 (total book balance was \$192,656) was exposed to custodial credit risk as it was uninsured and uncollateralized.

### 3. PROPERTY TAXES

Property taxes for the Authority are levied each July 1, based on the assessed valuation of property located in the City of Jackson, as of the preceding December 31, the lien date. Property taxes are due on July 20, and are recognized in the fiscal year in which they are levied. The Authority levied property taxes of two mills for the year ended June 30, 2006.

### 4. ADJUSTMENT

Following is an explanation of the adjustments between the governmental funds statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities, which reconciles the net change in fund balances to the change in net assets:

<b>Net change in fund balances</b>	<b>\$ 22,787</b>
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**Adjustments:**

Transfer amount from the primary government. For the statement of activities, other financial sources are eliminated and are reclassified as contributions:

Transfer from the City of Jackson	(37,800)
Contributions from the City of Jackson	<u>37,800</u>

<b>Change in net assets</b>	<b><u><u>\$ 22,787</u></u></b>
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# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



October 18, 2006

To the Members of the  
Jackson Downtown Development Authority Board  
Jackson, Michigan

We have audited the basic financial statements of the Jackson Downtown Development Authority, *a component unit of the City of Jackson*, as of and for the year ended June 30, 2006, and have issued our report thereon dated October 18, 2006.

Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility under Generally Accepted Auditing Standards**

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the basic financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the Jackson Downtown Development Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

### **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Jackson Downtown Development Authority are described in Note 1 to the basic financial statements.

We noted no transactions entered into by Jackson Downtown Development Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

- Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The Authority used no estimates in the valuation of account balances at June 30, 2006.

### **Significant Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Authority's financial reporting process (that is, cause future financial statements to be materially misstated). We proposed no adjustments to the financial statements.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the basic financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's basic financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as The Jackson Downtown Development Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

This letter and the accompanying comments are intended solely for the use of the Board and management of the Jackson Downtown Development Authority, a component unit of the City of Jackson, and are not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

# JACKSON DOWNTOWN DEVELOPMENT AUTHORITY

## COMMENTS

For the Year Ended June 30, 2006

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During our audit we became aware of certain issues regarding internal control and financial reporting. This memorandum summarizes our comments and suggestions regarding these matters. This memorandum does not affect our report dated October 18, 2006 on the financial statements of Jackson Downtown Development Authority.

### **I. Internal Controls – Segregation of Duties**

Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the Authority's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances.

As is the case with many organizations of similar size, the Authority lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.

As stated previously, the establishing and maintaining of internal controls is the responsibility of management. As the Authority's independent external auditors, we are specifically banned by professional standards from performing any management functions. In other words, the annual audit is not a part of the Authority's internal control structure, and cannot not be relied upon as part of *management's* systems to deter or detect fraud and abuse.

While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

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